

Hydro One announces third quarter financial results

Toronto, November 5, 2003 - Hydro One Inc. today released its third quarter results, which show net income of \$93 million for the third quarter and \$317 million for the nine months ended September 30, 2003.

Compared to the first nine months of 2002, net income was unchanged even though a rate cap has been in place since November of last year. There has been a positive impact on earnings from the higher demand for electricity as a result of Ontario's cold winter and the sale of the competitive retail operations in April 2002. This has been offset by the effect of this summer's cooler temperatures compared to the abnormally hot temperatures of the summer of 2002, as well as a larger work program and related costs. In 2003, investments increased in transmission lines and stations maintenance programs, as well as in the distribution forestry program. This work is being done to maintain the reliability of the systems.

On August 14th, a major loss of electric load occurred in the Mid-west and Northeast US and eastern Canada, including most of Ontario. We did not experience any significant damage to our equipment or system infrastructure as a result of the outage. Our efforts were focused on restoring power on a priority basis.

Third quarter net income decreased by \$19 million, or 17 per cent, compared to the same period in 2002. The cooler summer temperatures relative to last year have resulted in lower transmission revenues.

For the nine months ended September 30, 2003, total revenue increased by \$17 million, or 1 per cent, compared to last year. Revenue was higher primarily due to an increase in large customers served by the distribution business, partially offset by lower prices for purchased power and the reduction in transmission revenues. Net cash from operations was \$815 million in the first nine months of 2003.

"Maintaining consistent financial performance is a top priority for Hydro One and we have achieved that in the first three quarters of this year. We met this goal while continuing to deliver a high level of service to our customers," said Tom Parkinson, President and Chief Executive Officer of Hydro One. "The August 14th power outage tested the resiliency of our system and the skill and dedication of our staff, and both came through with flying colours. Our people played an instrumental role in the timely restoration of the power grid and they should be commended for a job well done."

CONSOLIDATED FINANCIAL HIGHLIGHTS AND STATISTICS

<i>(Canadian dollars in millions) (except as otherwise noted)</i>	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Revenues	949	1,097	3,049	3,032
Purchased power	409	517	1,409	1,389
Operating costs	318	306	910	872
Net income	93	112	317	317
Net cash from operations	338	181	815	368
Transmission – units transmitted (<i>TWh</i>)	37.2	40.3	113.8	114.4
Distribution – units distributed (<i>TWh</i>)	6.4	6.7	20.7	20.6

Hydro One Inc. is a holding company that operates through its subsidiaries in electricity transmission and distribution and telecom businesses. One of its subsidiaries, Hydro One Networks Inc., operates one of the largest transmission and distribution systems in North America. Hydro One Inc. is wholly owned by the Ontario government.

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HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

As used in this section, references to increases and decreases, whether in terms of amounts or percentages are made by comparison of the three and nine months ended September 30, 2003 to the three and nine months ended September 30, 2002.

Revenues

<i>(Canadian dollars in millions)</i>	Three months ended September 30				Nine months ended September 30			
	2003	2002	\$ Change	% Change	2003	2002	\$ Change	% Change
Transmission	325	367	(42)	(11%)	983	994	(11)	(1%)
Distribution	619	726	(107)	(15%)	2,046	2,012	34	2%
Other	5	4	1	25%	20	26	(6)	(23%)
	949	1,097	(148)	(13%)	3,049	3,032	17	1%
Transmission - units transmitted (<i>TWh</i>)	37.2	40.3	(3.1)	(8%)	113.8	114.4	(0.6)	-%
Distribution - units distributed (<i>TWh</i>)	6.4	6.7	(0.3)	(4%)	20.7	20.6	0.1	-%

The demand for electricity generally follows normal weather-related variations, and therefore our energy related revenues would tend to be higher in the first and third quarters than in the second and fourth quarters.

Transmission revenues were lower in the third quarter than in the same period in 2002 primarily due to the impact of this summer's cooler temperatures compared to the abnormally hot temperatures experienced last summer. As a result of this variation in weather, the average peak demand for the quarter was approximately 2,645 MW lower than the comparative period. On a year-to-date basis, this reduction in third quarter revenues was substantially mitigated by the impact of the colder winter this year.

Distribution revenues were also lower due to the impact of weather on both the Hourly Ontario Energy Price (HOEP) and demand. Revenue declined by \$78 million primarily due to lower prices for purchased power and by \$29 million due to the reduction in demand. For the first nine months, lower distribution revenues in the third quarter and from price changes due to the unbundling of electricity rates last year were more than offset by higher revenues attributable to the large customers that we are required to serve directly this year and to the demand associated with the colder winter.

Other revenue increased marginally in the third quarter compared to the same period in 2002 primarily due to the growth of our telecommunications business conducted by our wholly owned subsidiary, Hydro One Telecom Inc. On a year-to-date basis, the reduction primarily reflects the contribution in 2002 of the competitive retail operations before it was sold last year.

Purchased Power

Purchased power costs decreased by \$108 million, or 21 per cent, to \$409 million in the third quarter compared to the same period in 2002. Purchased power costs were lower by \$88 million due to reductions in the average HOEP, including related costs, and by \$20 million due to the weather-related reduction in demand.

During the first nine months, purchased power costs increased by \$20 million or 1 per cent, to \$1,409 million. Purchased power costs increased by \$127 million due to the increase in electricity required to directly serve the additional large customers and the higher weather-related demand this winter. Lower prices for purchased power due to reductions in the average HOEP, including related costs, and the unbundling of electricity rates in May 2002 partially offset the volume increase by \$107 million.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Operation, Maintenance and Administration

<i>(Canadian dollars in millions)</i>	Three months ended September 30				Nine months ended September 30			
	2003	2002	\$ Change	% Change	2003	2002	\$ Change	% Change
Transmission	99	93	6	6%	288	255	33	13%
Distribution	101	104	(3)	(3)%	282	266	16	6%
Other	5	3	2	67%	19	52	(33)	(63)%
	205	200	5	3%	589	573	16	3%

Transmission operation, maintenance and administration expenditures necessary to sustain our high-voltage system increased in the third quarter as well as on a year-to-date basis, compared to the same periods last year. These increases reflect higher work program levels for transmission lines and stations maintenance, the impact of which was partially offset by the charge for the staff reduction program that was recognized in the third quarter of 2002. Savings from this program and other ongoing productivity improvements have been reinvested into the maintenance program. On a year-to-date basis, we have experienced higher corrective maintenance reflecting equipment-related difficulties primarily resulting from adverse weather earlier in the year.

While we took a lead role to restore power on a priority basis after the August 14th outage, in which a major loss of electric load occurred in the Mid-west and Northeast US and eastern Canada, including most of Ontario, our efforts did not result in a significant increase in our costs. We did not experience any significant damage to our equipment or system infrastructure.

As part of a continuing investigation into the August 14th event, some of our staff has been seconded to technical teams established by the North American Electric Reliability Council. As well, a joint US – Canada Task Force has been established to identify the causes and to seek recommendations to help prevent future power outages. We are fully co-operating with these efforts with representation in the Reliability Working Group, which reports to the Task Force.

Distribution operation, maintenance and administration costs were marginally lower in the third quarter, but higher on a year-to-date basis. The impact of last year's charge for the staff reduction program was partially offset by increased expenditures associated with our expanded lines and forestry maintenance programs as well as expenditures associated with emergency trouble calls to restore power. Enhanced clearing of trees and brush on our rights of way are being undertaken to maintain reliability and to reduce vegetation caused power outages on our system.

Other operation, maintenance and administration costs were higher in the third quarter reflecting the expenditures to support our growing telecommunications business. On a year-to-date basis, the lower expenditures reflect the sale of substantially all of the assets pertaining to our competitive retail operations last year.

Depreciation and Amortization

Depreciation and amortization expense increased by \$7 million, or 7 per cent, to \$113 million in the third quarter and by \$22 million, or 7 per cent to \$321 million in the first nine months, compared to the same periods last year. This increase primarily results from an increase in fixed assets in service consistent with our capital expenditures program and higher amortization expense. The increase in amortization expense is associated with the regulatory assets established for market ready costs and for certain environmental remediation costs incurred by our distribution business.

Financing Charges

Financing charges increased \$1 million, or 1 per cent, to \$86 million in the third quarter, and were unchanged at \$260 million over the first nine months, compared to the same periods last year. These marginal changes reflect higher average levels of debt outstanding and the offsetting impact of refinancing maturing long-term debt at lower interest rates.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Provision for Payments in Lieu of Corporate Income Taxes

The provision for payments in lieu of corporate income taxes decreased by \$34 million, or 44 per cent, to \$43 million in the third quarter and by \$41 million, or 21 per cent, to \$153 million in the first nine months compared to the same periods in 2002. These reductions reflect the level of income before taxes and the availability of higher tax deductions, combined with the impact of a reduction in the statutory tax rate from 38.62 per cent to 36.62 per cent.

Net Income

Net income for the third quarter was \$93 million, a decrease of \$19 million, or 17 per cent, from the same period last year. The impact of this summer's cooler temperatures on energy revenues compared to the abnormally hot temperatures of the summer of 2002 are largely responsible for the change. Lower payments in lieu of corporate income taxes due to the availability of higher tax deductions and a lower statutory tax rate partially mitigated this reduction in net income.

On a year-to-date basis, net income was \$317 million, consistent with that of the comparable period. Strong first quarter earnings due to colder than average winter temperatures mitigated the summer's lower net income. An increased work program and related costs were partially offset by cost savings realized as a result of the sale of the competitive retail operations in April 2002. Lower payments in lieu of corporate income taxes, consistent with the results for the quarter, further mitigated the higher costs associated with our larger work program.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity and capital resources are funds generated from operations, capital market borrowings and bank financing. These resources will be used to satisfy our capital resource requirements, which continue to include capital expenditures, servicing and repayment of our debt, and dividends.

Summary of Sources and Uses of Cash

<i>(Canadian dollars in millions)</i>	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Operating activities	338	181	815	368
Financing activities				
Debt issued	-	500	1,250	500
Debt retired	-	-	(651)	(195)
Debt for short-term financing	(285)	(120)	(579)	170
Dividends paid	(59)	(112)	(184)	(133)
Investing activities				
Capital expenditures	(148)	(135)	(382)	(385)
Other	21	12	50	41
Net change in cash and cash equivalents	(133)	326	319	366

Operating Activities

The \$157 million third quarter and \$447 million year-to-date increases in net cash from operations, compared to 2002, are attributable to a reduction in the level of accounts receivable related to energy sales. Accounts receivable balances were higher last year due to the abnormally hot temperatures experienced in the third quarter that led to increased volumes of electricity being delivered and to higher market prices. Year-to-date results also reflect a one-time funding impact associated with the opening of the electricity market on May 1, 2002.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financing Activities

Short-term liquidity is provided through funds from operations and our commercial paper program, under which we are authorized to issue up to \$1 billion in short-term notes with a term to maturity of less than 365 days. This program is supported by committed revolving credit facilities with a syndicate of banks of \$750 million maturing in August 2004 and \$250 million maturing in August 2005. The \$1 billion in short-term liquidity available under this program, together with the current cash reserve of \$284 million and anticipated levels of funding from operations should be sufficient to fund our normal operating requirements.

Long-term financing is provided by our access to the debt markets, including our medium term note program. We have approximately \$1.5 billion principal amount issuable under this program that is available until July 2005. We intend to use the medium term note program to meet most of our borrowing requirements for the foreseeable future. We believe that we will be able to issue medium term notes on satisfactory terms, taking into account, among other factors, the investment grade ratings for our long-term senior, unsecured debt from major Canadian and U.S. rating agencies.

Rating Agency	Rating	
	Short-term Debt	Long-term Debt
Standard & Poor's Rating Services Inc.	A-2	A- (negative outlook)
Dominion Bond Rating Service Inc.	R-1 (low)	A (negative trend)
Moody's Investor Services Inc.	Prime-1	A2

During the third quarter of 2003, we repaid all of our short-term notes with some of the proceeds of our June debt issuance. Over the first nine months of 2003, we have issued a total of \$1,250 million in long-term debt under the medium term note program and we have repaid \$651 million in maturing long-term debt to the Ontario Electricity Financial Corporation (OEFC). In the first nine months of 2002, we issued \$500 million in long-term debt and we repaid \$195 million in maturing long-term debt to the OEFC. In this same period, we increased our short-term notes by \$170 million.

In the third quarter of 2003, we paid dividends to the Province in the amount of \$59 million, consisting of \$4 million in preferred dividends and \$55 million in common dividends. In the comparative period, we paid common and preferred dividends of \$112 million. Over the first nine months of the year, we have paid total common and preferred dividends of \$184 million compared with total dividends of \$133 million in the first nine months of 2002.

Investing Activities

Cash used in investing activities primarily represents capital expenditures to enhance and reinforce our transmission and distribution systems. Investing activities in 2002 also included net proceeds of approximately \$50 million from the sale of substantially all of the assets pertaining to our competitive retail operations. Capital expenditures for each of our three business segments were as follows:

	Three months ended September 30				Nine months ended September 30			
	2003	2002	\$	%	2003	2002	\$	%
<i>(Canadian dollars in millions)</i>			Change	Change			Change	Change
Transmission	66	59	7	12%	178	165	13	8%
Distribution	80	72	8	11%	194	206	(12)	(6)%
Other	2	4	(2)	(50)%	10	14	(4)	(29)%
	148	135	13	10%	382	385	(3)	(1)%

Transmission capital expenditures increased in the third quarter compared to the same period in 2002 primarily as a result of investments related to the refurbishment and replacement of our lines and stations assets, including the ongoing replacement of our microwave radio system. In addition, equipment and fleet purchases were higher in the third quarter of 2003 due to the replacement of end-of-life assets.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

On a year-to-date basis, capital expenditures were also higher due to investments to increase capacity, including station construction in southern Ontario. Construction of an integrated operating facility, that began last year, continued throughout the period. This integrated facility will be fully functional in 2004 and is expected to result in improved cost efficiencies, supply reliability, and an enhanced level of service to our customers.

Distribution capital expenditures increased in the third quarter compared to the same period in 2002 primarily reflecting a larger wood pole replacement program to maintain asset condition and system reliability. We expect to replace approximately 30 per cent more poles this year than we did in 2002. In addition, equipment and fleet purchases were higher in the third quarter of 2003 due to the replacement of end-of-life assets.

On a year-to-date basis, the decrease in spending primarily reflected the extent of emergency capital work required in the first quarter of 2002 as a result of intense storms, and the completion of work necessary to prepare our systems and processes for the opening of the electricity market on May 1, 2002.

Other capital expenditures decreased in the third quarter as a result of lower costs associated with the enhancement of the fibre-optic network to support our growing telecommunications business. On a year-to-date basis, the reduction in spending also reflects the sale of substantially all of the assets pertaining to our competitive retail operations.

Summary of Contractual Obligations and Other Commercial Commitments

The following table presents a summary of our debt and other major contractual obligations as well as other major commercial commitments.

September 30, 2003

(Canadian dollars in millions)

	Total	2003 ¹	2004/2005	2006/2007	After 2007
Contractual Obligations (due by year):					
Short-term notes payable	-	-	-	-	-
Long-term debt	5,392	-	1,239	1,053	3,100
Operating lease commitments	15	3	10	2	-
Inergi LP outsourcing agreement	853	30	220	208	395
Total Contractual Obligations	6,260	33	1,469	1,263	3,495
Other Commercial Commitments (by year of expiry)					
Bank line ²	1,000	-	1,000	-	-
Letters of credit ³	104	83	21	-	-
Guarantees ³	275	275	-	-	-
Total Other Commercial Commitments	1,379	358	1,021	-	-

¹The amounts disclosed represent the balance due over the period October 1, 2003 to December 31, 2003.

²As a backstop to our commercial paper program, we have a revolving standby credit facility with a syndicate of banks of \$750 million for a 364-day term maturing on August 13, 2004 and \$250 million for a five-year term maturing on August 18, 2005.

³We currently have bank letters of credit of \$78 million outstanding relating to retirement compensation agreements. We have also provided prudential support to the IMO as required by the Market Rules, using a combination of bank letters of credit of \$20 million and parental guarantees of \$275 million. The amount of prudential support that we provide in the form of bank letters of credit to the IMO is dependent on our long-term credit ratings from major Canadian and U.S. rating agencies. The amount of bank letters of credit provided would need to increase if our credit ratings deteriorated. The remaining letters of credit pertain to operating letters of credit and surety bonds.

HYDRO ONE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Payments in respect of operating leases and our outsourcing agreement with Inergi LP are recorded under operation, maintenance and administration costs on our statement of operations or in our capital programs. The amounts in the above table under short-term notes payable and long-term debt are not charged to our results of operations, but are reflected on our balance sheet and statement of cash flows. Interest associated with this debt is recorded under financing charges on our statement of operations or in our capital programs, but these financing charges are not reflected in the above table.

SELECTED FINANCIAL HIGHLIGHTS AND RATIOS

<i>(Canadian dollars in millions) (except as otherwise noted)</i>	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Net income	93	112	317	317
EBITDA ¹	335	380	1,051	1,070
Net cash from operations	338	181	815	368
Capital expenditures	148	135	382	385
Earnings per common share <i>(Canadian dollars)</i>	890	1,076	3,039	3,033
Earnings coverage ²			2.27	2.32
Net asset coverage on long-term debt ³			1.82	1.90
Total debt to capitalization ⁴			55%	56%

¹EBITDA has been presented for the three and nine months ended September 30, 2003 and September 30, 2002 and has been calculated as the sum of income before financing charges, provision for payments in lieu of corporate income taxes and depreciation and amortization. We provide this measure because we believe that it is a standard and useful measure of our financial performance.

²The earnings coverage ratio has been presented for the twelve months ended September 30, 2003 and September 30, 2002, respectively and has been calculated as the sum of net income, provision for payments in lieu of corporate income taxes and financing charges divided by the sum of financing charges, capitalized interest and cumulative preferred dividends.

³The net asset coverage on long-term debt ratio has been presented as at September 30, 2003 and December 31, 2002 and has been calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt including current portion.

⁴Total debt to capitalization ratio has been presented as at September 30, 2003 and December 31, 2002 and has been calculated as total debt divided by total debt plus total shareholder's equity.

FORWARD LOOKING STATEMENTS AND INFORMATION

We have included forward-looking statements in this report that are subject to risks, uncertainties and assumptions. Such information represents our current views based on information as at the date of this report. We do not intend to update this information and disclaim any legal obligation to the contrary.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

<i>(Canadian dollars in millions)</i>	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Revenues				
Transmission	325	367	983	994
Distribution	619	726	2,046	2,012
Other	5	4	20	26
	949	1,097	3,049	3,032
Costs				
Purchased power	409	517	1,409	1,389
Operation, maintenance and administration	205	200	589	573
Depreciation and amortization	113	106	321	299
	727	823	2,319	2,261
Income before financing charges and provision for payments in lieu of corporate income taxes	222	274	730	771
Financing charges	86	85	260	260
Income before provision for payments in lieu of corporate income taxes	136	189	470	511
Provision for payments in lieu of corporate income taxes	43	77	153	194
Net income	93	112	317	317
Basic and fully diluted earnings per common share (Canadian dollars)	890	1,076	3,039	3,033

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (unaudited)

<i>(Canadian dollars in millions)</i>	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Retained earnings, beginning of period	601	487	502	357
Net income	93	112	317	317
Dividends (Note 2)	(59)	(58)	(184)	(133)
Retained earnings, end of period	635	541	635	541

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

<i>(Canadian dollars in millions)</i>	September 30, 2003	December 31, 2002
	(unaudited)	
Assets		
Current assets		
Cash and cash equivalents	284	-
Accounts receivable (net of allowance for doubtful accounts)	564	646
Materials and supplies	51	55
	<hr/> 899	<hr/> 701
Fixed assets		
Fixed assets in service	14,102	13,790
Less: accumulated depreciation	5,091	4,859
	<hr/> 9,011	<hr/> 8,931
Construction in progress	335	300
	<hr/> 9,346	<hr/> 9,231
Other long-term assets		
Deferred pension asset	624	742
Regulatory assets	512	570
Goodwill	133	133
Long-term accounts receivable and other assets	18	28
Deferred debt costs	23	17
	<hr/> 1,310	<hr/> 1,490
Total assets	<hr/> 11,555	<hr/> 11,422
Liabilities		
Current liabilities		
Bank indebtedness	-	35
Accounts payable and accrued charges	598	576
Accrued interest	96	53
Short-term notes payable	-	579
Long-term debt payable within one year <i>(Note 3)</i>	700	651
	<hr/> 1,394	<hr/> 1,894
Long-term debt <i>(Note 3)</i>	4,521	3,938
	<hr/>	<hr/>
Other long-term liabilities		
Regulatory liability	624	742
Employee future benefits other than pension	585	540
Environmental liabilities	130	140
Long-term accounts payable and accrued charges	29	29
	<hr/> 1,368	<hr/> 1,451
Total liabilities	<hr/> 7,283	<hr/> 7,283
Shareholder's equity		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Retained earnings	635	502
Total shareholder's equity	<hr/> 4,272	<hr/> 4,139
Total liabilities and shareholder's equity	<hr/> 11,555	<hr/> 11,422

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

<i>(Canadian dollars in millions)</i>	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Operating activities				
Net income	93	112	317	317
Adjustments for non-cash items:				
Depreciation and amortization (net of removal costs)	104	99	297	280
	197	211	614	597
Changes in non-cash balances related to operations	141	(30)	201	(229)
Net cash from operations	338	181	815	368
Financing activities				
Debt for long-term financing:				
Issued	-	500	1,250	500
Retired	-	-	(651)	(195)
Amortization of discount	17	-	42	-
Termination of forward sale <i>(Note 3)</i>	-	-	(12)	-
Debt for short-term financing	(285)	(120)	(579)	170
Dividends paid	(59)	(112)	(184)	(133)
Other	-	6	(5)	6
Net cash (used in) from financing activities	(327)	274	(139)	348
Investing activities				
Fixed assets	(148)	(135)	(382)	(385)
Proceeds from disposition	-	-	-	50
Other assets	4	6	25	(15)
Net cash used in investing activities	(144)	(129)	(357)	(350)
Net change in cash and cash equivalents	(133)	326	319	366
Cash and cash equivalents, beginning of period	417	16	(35)	(24)
Cash and cash equivalents, end of period	284	342	284	342

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The Consolidated Financial Statements of Hydro One Inc. (Hydro One or the Company) which are presented herein have been prepared in accordance with the accounting policies described in the Consolidated Financial Statements for the years ended December 31, 2002 and December 31, 2001, and should be read in conjunction with those financial statements.

In the opinion of management, the unaudited interim Consolidated Financial Statements reflect all of the adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position as at September 30, 2003 and the results of operations and cash flows for the three and nine months ended September 30, 2003 and 2002.

2. DIVIDENDS

During the nine months ended September 30, 2003, preferred dividends in the amount of \$13 million (2002 - \$13 million) and common dividends in the amount of \$171 million (2002 - \$120 million) were declared.

3. LONG-TERM DEBT

On January 28, 2003, Hydro One issued notes with a principal amount of \$500 million under the Company's medium term note program. The notes were issued in two tranches: \$300 million at a coupon rate of 5.77 per cent due November 15, 2012 and \$200 million at a coupon rate of 6.35 per cent due January 31, 2034.

On April 22, 2003, Hydro One issued 40-year notes with a principal amount of \$250 million under the Company's medium term note program. These notes have a 6.59 per cent coupon rate and mature on April 22, 2043.

On June 23, 2003, Hydro One issued 5-year notes with a principal amount of \$500 million, under the Company's medium term note program. These notes have a 4.00 per cent coupon rate and mature on June 23, 2008. Simultaneously, the Company terminated its February 2003 forward sale agreement of \$250 million in Government of Canada bonds for a net cash payment of \$12 million. This agreement was designated as an interest rate hedge for an anticipated transaction and, as a result, the cost of termination will be deferred and amortized on an annuity basis over the five-year term of the related debt.

4. REBATES

The *Electricity Pricing, Conservation and Supply Act, 2002* stipulated a fixed energy price of 4.3 cents per kWh for low volume and designated customers, retroactive to Open Access and lasting until at least April 30, 2006. On March 21, 2003, the Province of Ontario announced that all customers with annual consumption up to 250,000 kWh and certain designated customers would now qualify for the 4.3 cents per kWh price, again retroactive to May 1, 2002. The 4.3 cents per kWh fixed price is being funded through the Ontario Electricity Financial Corporation.

The Company has retroactively restated its revenue and purchased power for the period May 1, 2002 to December 31, 2002 to reflect the 4.3 cents per kWh price. These offsetting restatements have not resulted in any adjustment to the net income previously reported. The Company's December 31, 2002 balance sheet has also been restated to adjust accounts receivable and accounts payable and accrued charges to reflect the 4.3 cents per kWh price.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENTED REPORTING

Hydro One has three reportable segments:

- I. The transmission business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- II. The distribution business, which comprises the core business of delivering and selling electricity to customers; and
- III. The "other" segment, which primarily consists of telecom, corporate and, in 2002, energy services. The competitive retail operations of the energy services business were sold in 2002 and the remaining operations of this business are being wound up.

The designation of segments is based on a combination of regulatory status and the nature of the products and services provided. Segment information on the above basis is as follows:

<i>Three months ended September 30 (Canadian dollars in millions)</i>	Transmission	Distribution	Other	Consolidated
2003				
Segment profit				
Revenues	325	619	5	949
Purchased power	-	409	-	409
Operation, maintenance and administration	99	101	5	205
Depreciation and amortization	58	54	1	113
Income before financing charges and provision for payments in lieu of corporate income taxes	168	55	(1)	222
Financing charges				86
Income before provision for payments in lieu of corporate income taxes				136
Capital expenditures	66	80	2	148
2002				
Segment profit				
Revenues	367	726	4	1,097
Purchased power	-	517	-	517
Operation, maintenance and administration	93	104	3	200
Depreciation and amortization	56	45	5	106
Income before financing charges and provision for payments in lieu of corporate income taxes	218	60	(4)	274
Financing charges				85
Income before provision for payments in lieu of corporate income taxes				189
Capital expenditures	59	72	4	135

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

<i>Nine months ended September 30 (Canadian dollars in millions)</i>	Transmission	Distribution	Other	Consolidated
2003				
Segment profit				
Revenues	983	2,046	20	3,049
Purchased power	-	1,409	-	1,409
Operation, maintenance and administration	288	282	19	589
Depreciation and amortization	166	153	2	321
Income before financing charges and provision for payments in lieu of corporate income taxes	529	202	(1)	730
Financing charges				260
Income before provision for payments in lieu of corporate income taxes				470
Capital expenditures	178	194	10	382
2002				
Segment profit				
Revenues	994	2,012	26	3,032
Purchased power	-	1,388	1	1,389
Operation, maintenance and administration	255	266	52	573
Depreciation and amortization	163	128	8	299
Income before financing charges and provision for payments in lieu of corporate income taxes	576	230	(35)	771
Financing charges				260
Income before provision for payments in lieu of corporate income taxes				511
Capital expenditures	165	206	14	385
September 30, December 31,				
2003 2002				
<i>(Canadian dollars in millions)</i>				
Total assets				
Transmission			6,548	6,638
Distribution			4,632	4,694
Other			375	90
			11,555	11,422

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

6. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the September 30, 2003 Consolidated Financial Statements.